February 23, 2017

INITIATING COVERAGE

Trident Ltd.

Capex cycle behind; focus on sales growth

BUY

Analyst
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Nifty: 8,927; Sensex: 28,865

CMP	**Rs70**
Target Price	**Rs98**
Potential Upside/Downside	**+41%**

Key Stock Data

Sector	Textiles
Bloomberg	TRID IN / TRIE.BO
Shares o/s (mn)	509
Market cap. (Rsmn)	35,503
Market cap. (US$ mn)	530

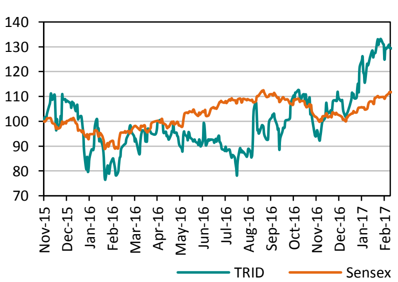
Price Performance

52-week high/low			Rs73/42
	-1m	-3m	-12m
Absolute (%)	5	38	52
Rel to Sensex (%)	(1)	27	31

Shareholding Pattern (%)

Promoters	67.8
Institutions	2.8
Non-Institutions	29.4

Relative to Sensex



Source: Ace Equity

Summary

- **Incorporated in 1990 by a first generation entrepreneur Mr. Rajinder Gupta, Trident is one of the largest integrated home textile producers in the world. It also manufactures wheat straw-based paper.**
- **We expect Trident to be one of the key beneficiaries of India's rising share in US home textiles markets.**
- **Trident has nearly doubled its terry towel capacity and set up a new bed linen capacity at Budni (Madhya Pradesh) in FY16.**
- **Until FY16, Trident was in the capex mode which resulted in sporadic cash flow generation.**
- **Nevertheless, we expect remarkable improvement in free cash flows from FY17 which are likely to be utilized towards deleveraging balance sheet and stepping up dividend payments.**

Investment Rationale and Outlook

- **Expansion plans complete:** During FY14-16, Trident expanded capacity in both towels and sheets with backward integration in yarn manufacturing. It spent Rs12 bn on terry towel and Rs15 bn on bed linen, including 190,000 spindles. With this expansion, Trident now has the largest terry towel capacity in India (90k tonnes).
- **Terry Towel and bed linen sales volumes poised to witness strong growth:** Trident is likely to leverage its long-standing relationships and distribution network to increase sales of terry towel and ramp up sales of its new product bed sheets. We forecast terry towel sales volumes to rise at a CAGR of 16.5% over FY16-19E. Bed linen sales volumes are expected to rise to 30 mn mtrs by FY19 from an estimated 12 mn mtrs in FY17. Further, realizations in bed linen are expected to increase at a CAGR of 15.2% over FY17-19E.
- **Return ratios on these projects likely to be strong:** Currently, the utilization levels in bed linen facility is ~30% and hence not break-even. Nevertheless, we expect strong return on equity on this project once it operates at full capacity which is likely to be in FY20E. We expect project ROCE and ROE to be 8% and 19%, respectively. In the terry towel project, the return ratios are likely to be even stronger on full ramp up. We expect project ROCE and ROE to be 42% and 18%, respectively. It is noteworthy that the interest rate on both these projects is estimated to be only ~4.0% (including working capital loans) due to central and state level subsidies.
- **Trident's overall return ratios to expand**: We expect significant improvement in Trident's return ratios as it ramps-up utilization levels with rising order backlogs. ROEs and ROCEs are expected to expand to 19.7% and 17.2% in FY18E, respectively, from 14.2% and 10.7% in FY16. Free cash flows to the firm are likely to remain strong during FY17-19E (Rs6,000-7,400 mn).
- **Outlook and valuation:** We expect Trident's revenues/EBITDA/ net profit to grow at a CAGR of 15.5% /19.6%/34.5%, respectively over FY16-19E. Further, with rising sales of terry towel and bed linen and no major capex plans in the near future, we expect free cash flows to be utilized towards deleveraging balance sheet and paying dividends. Hence, we expect the stock to trade at higher-than-historical multiples. On valuation front, the stock is currently trading at a PE of 8.5x on its FY18E earnings. **We assign a PE of 12.0x to our FY18 EPS estimate of Rs8.2 and derive a target price of Rs98, translating in a 41% upside to the current market price.**

Table: Financial snapshot (Consolidated) **(Rs mn)**

Year	Revenue	EBITDA	EBITDA(%)	Adj.PAT	EPS (Rs)	PE(x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
FY15	37,553	6,608	17.6	1,179	2.3	30.1	7.4	9.9	14.1
FY16	36,840	7,189	19.5	2,291	4.0	17.3	8.4	14.2	10.7
FY17E	46,426	9,521	20.5	3,378	6.6	10.5	5.4	18.1	13.5
FY18E	50,463	10,588	21.0	4,168	8.2	8.5	4.2	19.7	17.2

Source: Company; IDBI Capital Research

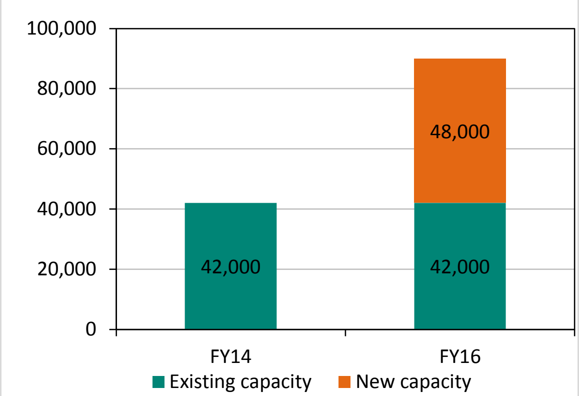
Investment Rationale

Expansion plans complete; Management focused on increasing top-line

- **Expansion plans complete; revenues poised to rise over the coming three years**

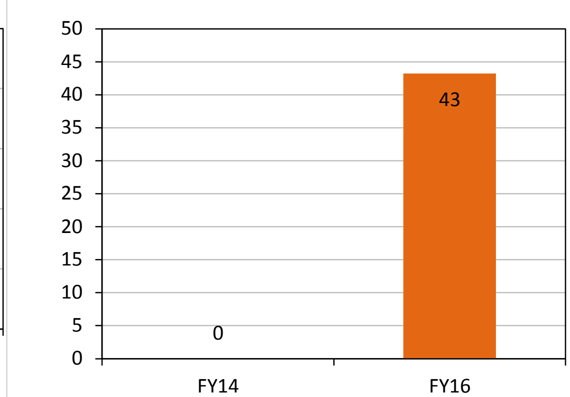
  During FY14-16, Trident expanded capacity in both towels and sheets with backward integration in yarn manufacturing. It spent Rs12 bn on terry towel and Rs15 bn on bed linen, including 190,000 spindles. With this expansion, Trident now has the largest terry towel capacity in India (90k tonnes).

Figure: Terry towel capacity more than doubled (tonnes)



Source: Company; IDBI Capital Research

Figure: New bed linen capacity set-up (mn mtrs)



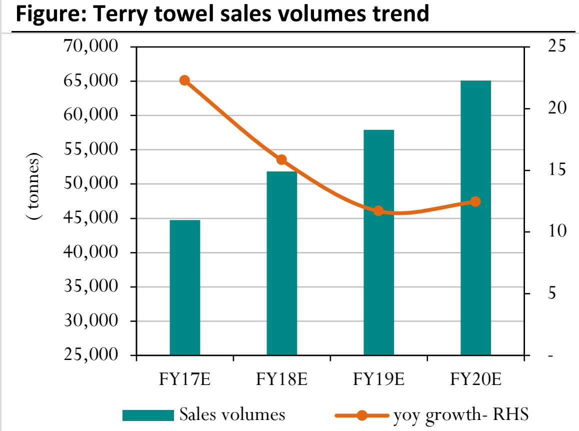
Source: Company; IDBI Capital Research

- **Terry Towel sales to witness strong growth over FY16-20E**

  Trident has been operating in terry towel business since more than a decade and has long-standing relationships with clients such as Wal-Mart, JC Penny, Target, IKEA, etc. It has added 48 kt of terry towel capacity in FY16 (to its existing capacity of 42 kt) and has become one of the largest vertically integrated home textile manufacturers in the world. The focus for the company hereon is to get additional sales orders given current capacity utilization of only 50% as of 3QFY17.

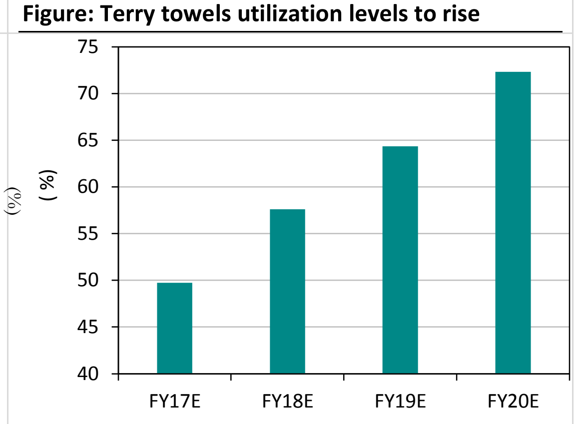
  We believe Trident is likely to leverage its long-standing relationships and distribution network to increase sales of terry towel. Also the company is likely to increase penetration in other geographies such as Middle East and South East Asia. We expect terry towel utilization levels to increase to 64% in FY19 from 46% in 3QFY17. Terry towel sales volumes are expected to rise at a CAGR of 16.5% over FY16-19E.

Figure: Terry towel sales volumes trend



Source: Company; IDBI Capital Research

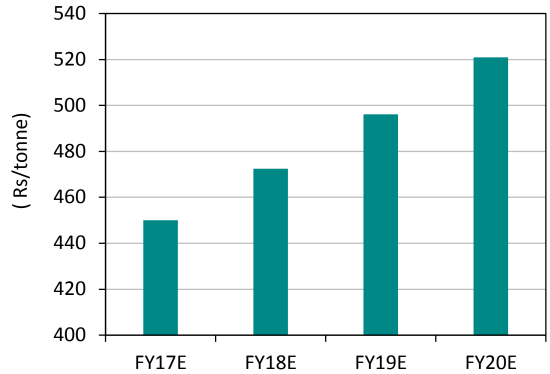
Figure: Terry towels utilization levels to rise



Source: Company; IDBI Capital Research

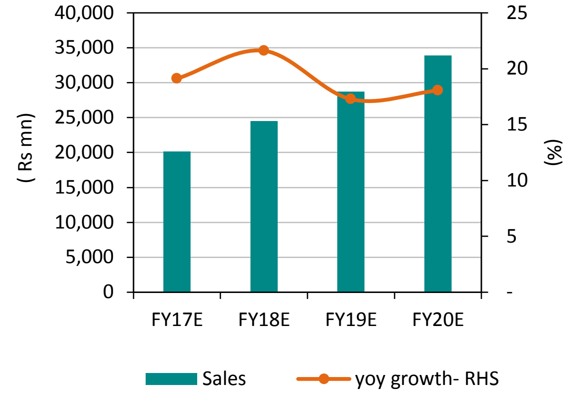
We estimate realizations to grow at a CAGR of 5.0% during FY17-20E as the company starts improving its product mix with rising orders. Overall Terry towel sales are estimated to grow at a CAGR of 19.0% during the same period.

Figure: Terry towel realizations to rise



Source: Company; IDBI Capital Research

Figure: Terry towel sales trend

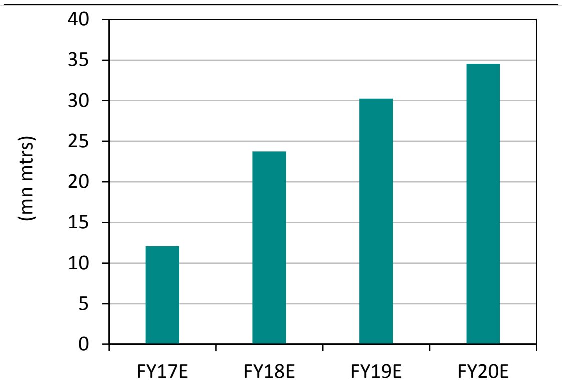


Source: Company; IDBI Capital Research

- **Bed linen sales to leap-frog over FY16-19E**

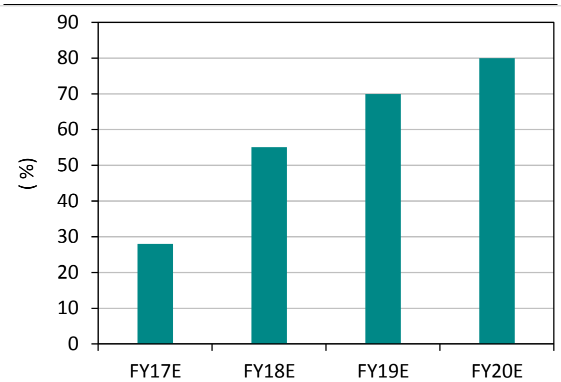
Trident forayed into the bed linen market as an extension of its product mix during FY16. While the company's utilization levels is lower (30%) currently, it is in the seeding stage and is focused on marketing products. Bed linen sales volumes are expected to rise to 30 mn mtrs by FY19 from an estimated 12 mn mtrs in FY17.

Figure: Bed linen sales volumes trend



Source: Company; IDBI Capital Research

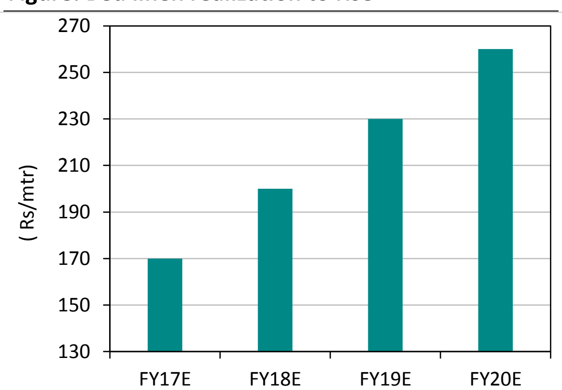
Figure: Bed linen utilization levels to improve



Source: Company; IDBI Capital Research

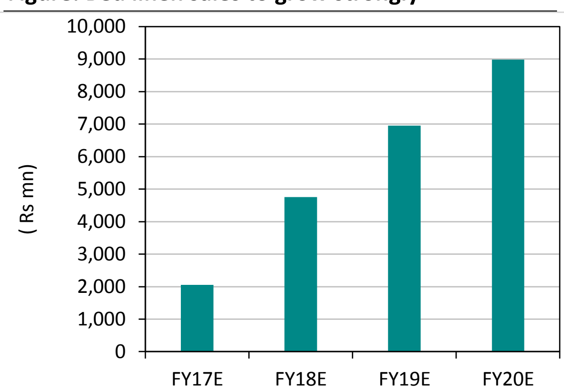
Current realizations in the range of Rs150-200/mtr are on account of promotional orders and less optimal product mix. With higher orders from large retailers the company's realizations are likely to improve in line with its competitors (Rs250-300/ mtr).

Figure: Bed linen realization to rise



Source: Company; IDBI Capital Research

Figure: Bed linen sales to grow strongly



Source: Company; IDBI Capital Research

Return ratios on these projects likely to be strong

Trident has spent Rs15,100 mn on its integrated bed linen project. Approximately Rs7,000 mn has been spent on spinning capacity and Rs8,100 mn on processing capacity. Currently, the bed sheet project is working at ~30% utilization levels and hence not breaking even. Nevertheless, we expect strong return on equity on this project once it operates at full capacity (likely in FY20E). In the tables below, we showcase the estimated return ratios on full ramp up.

Table: Bed linen project cost break-up including working capital requirement on full ramp-up (Rs mn)

Debt	11,625
Equity	3,075
Capital subsidy received	400
Total project cost	**15,100**
Working capital on full ramp-up	2,000
Total invested capital	**17,100**

Source: Company; IDBI Capital Research

Table: Bed linen project ROE estimated to be 19% on full ramp up (Rs mn)

Sales	10,000
EBITDA	2,400
EBITDA margin	24%
Depreciation	982
EBIT	1,419
Interest	545
PBT	874
Tax	288
Net profit	585
Project ROE	**19%**
Project ROCE (pre-tax)	**8%**

Source: IDBI Capital Research

In terry towel project, the return ratios are likely to be even stronger on full ramp up as there was no capex on spinning facilities. We expect project ROCE and ROE to be 18% and 42%, respectively. The interest cost on both these projects is estimated to be only 4.0% (including working capital loans) due to central and state level subsidies.

Table: Terry towel project cost break-up including working capital requirement on full ramp-up (Rs mn)

Debt	8,340
Equity	3,150
Capital subsidy received	420
Total project cost	**11,910**
Working capital on full ramp-up	3,299
Total invested capital	**15,139**

Source: Company; IDBI Capital Research

Table: Terry towel ROE estimated to be over 42% on full utilization (Rs mn)

Sales	17,940
EBITDA	3,588
EBITDA margin	20%
Depreciation	893
EBIT	2,695
Interest	463
PBT	2,232
tax	737
PAT	1,495
Project ROE	**42%**
Project ROCE (pre-tax)	**18%**

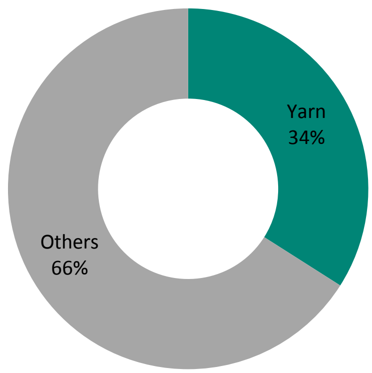
Source: IDBI Capital Research

Proven execution skills; vertical integration

Over the past 15 years, Trident has expanded vertically as well as horizontally moving up the value chain with foray into home textiles. The revenue mix has improved in favor of high margin products in the past two decades. In 1999, the commoditized yarn business contributed 75% to sales. Nevertheless, yarn's share in revenues declined gradually to 34% in FY16 and we estimate it to decline further to 21% with rising sales of bed linen and terry towels.

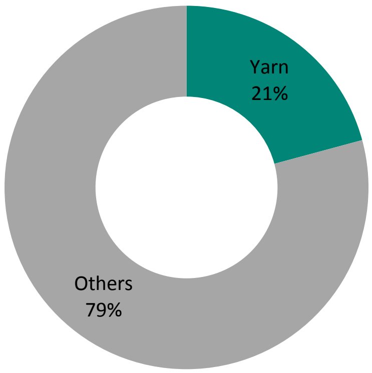
Trident's presence across the value chain of textiles manufacturing helps Trident's textile business nearly offset raw material price fluctuation risks. The home textile business is likely to internally consume 45% of yarn produced by FY18E. Increasing captive consumption of yarn for terry towels and the bed linen segment would add value in the textile chain, making the company a one stop-shop for home textiles.

Figure: Yarn contribution to sales (FY15)



Source: Company; IDBI Capital Research

Figure: Yarn contribution to sales (FY19E)



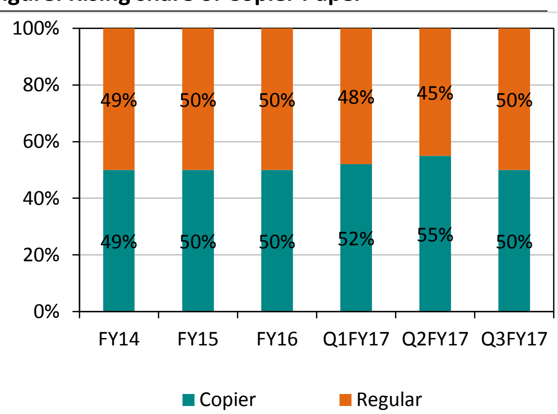
Source: Company; IDBI Capital Research

Improving product mix towards brand to aid Paper segment margins

Trident is the world's largest wheat straw-based paper producer with a paper capacity of 175 ktpa. The company is focusing to improve its product mix towards branded copier products which enjoy higher margins. Its key brands in copier paper are Trident My Choice, Trident Natural, Trident Spectra, Trident Eco Green and Trident Royal Touch.

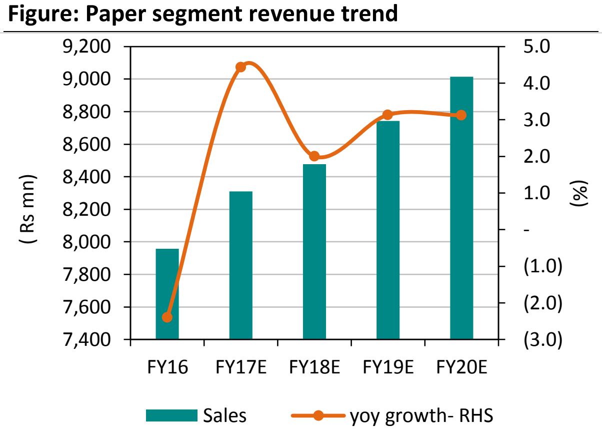
The company has environmental clearance to undertake brownfield expansion at its paper plant. However, the company has no plans to expand its capacity in the near future as it will lead to scarcity of raw materials (wheat straw) in Punjab.

Figure: Rising share of Copier Paper



Source: Company; IDBI Capital Research

Figure: Paper segment revenue trend

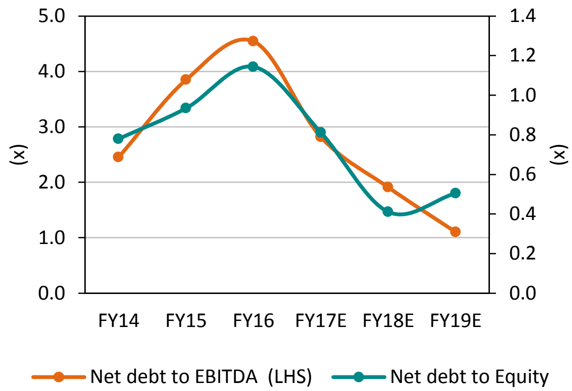


Source: Company; IDBI Capital Research

Credit profile to improve; dividends to rise

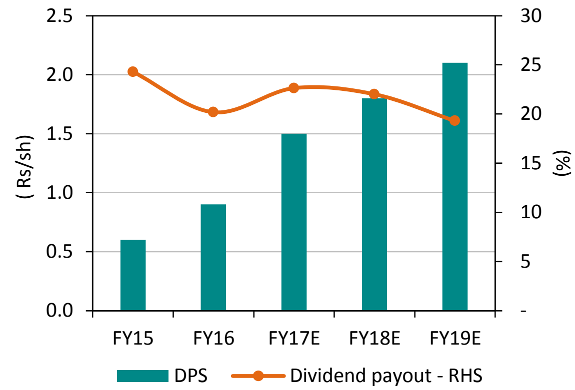
With major capex cycle complete in FY16, Trident's management remains focused on stepping up sales alongside margin improvement. Since FY14, Trident has started paying dividends and stepped up dividend per share every year. Trident has committed to pay minimum dividend payment at 6% of the face value. Also, company targets debt repayment of Rs1,000 mn per quarter over the coming eight quarters. We believe Trident's strategy to prepay high-cost debt and step-up dividend payments bode well for minority shareholders.

Figure: Credit profile to improve sharply



Source: Company; IDBI Capital Research

Figure: Dividend payments likely to increase



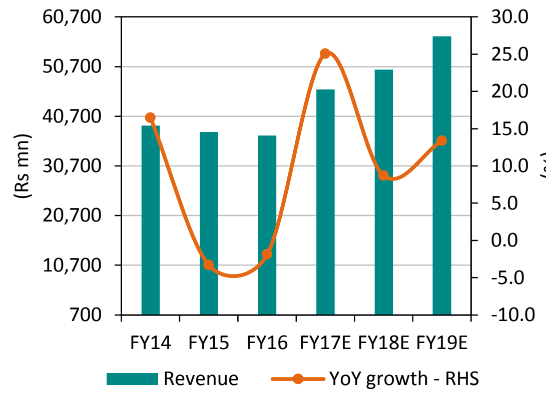
Source: Company; IDBI Capital Research

Financial Forecasts

- **Revenue to grow at a CAGR of 14% over FY16-19E**

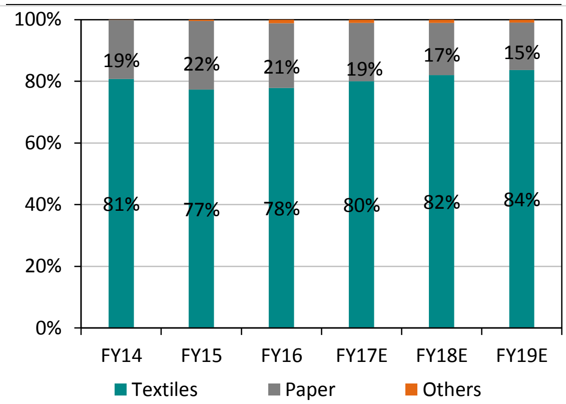
  We expect Trident's revenue to grow at a CAGR of 13.7% over FY16-19E on the back of rising sales of terry towel and bed linen. The recently commissioned bed linen segment is expected to grow the fastest (+221% CAGR) over FY16-19E, albeit from a low base, driven by addition of customers. The terry towel segment is likely to post healthy CAGR of 19.0% in sales over FY16-19E. Yarn volumes are likely to decline at a CAGR of 3.2% over FY16-19E as the company diverts yarn towards captive consumption.

Figure: Strong growth in revenues over FY6-19E



Source: Company; IDBI Capital Research

Figure: Share of textile to rise

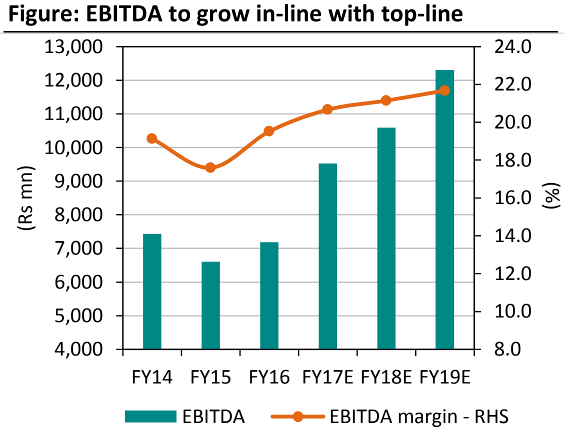


Source: Company; IDBI Capital Research

- **Net profit to grow at a CAGR of 35% over FY16-19E**

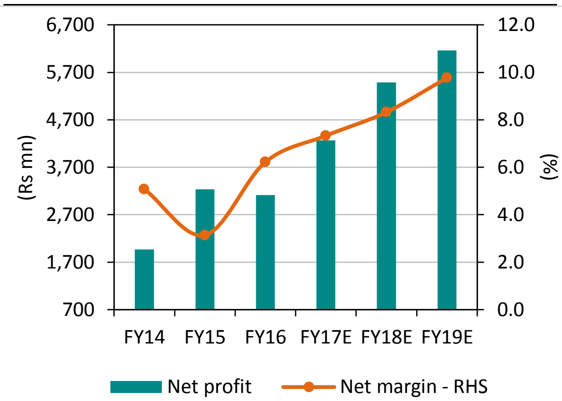
  EBITDA is estimated to grow at a CAGR of 19.6% over FY16-19E with increase in sales. We expect net profit to grow at a CAGR of 34.5% over FY16-19E due to higher EBITDA and fall in interest costs. Interest costs are estimated to decline from Rs1,364 mn in FY16 to Rs733 mn in FY19.

Figure: EBITDA to grow in-line with top-line



Source: Company; IDBI Capital Research

Figure: Strong growth in net profit

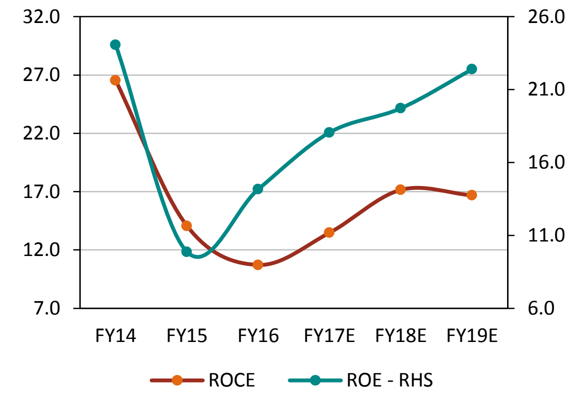


Source: Company; IDBI Capital Research

Return ratios to expand

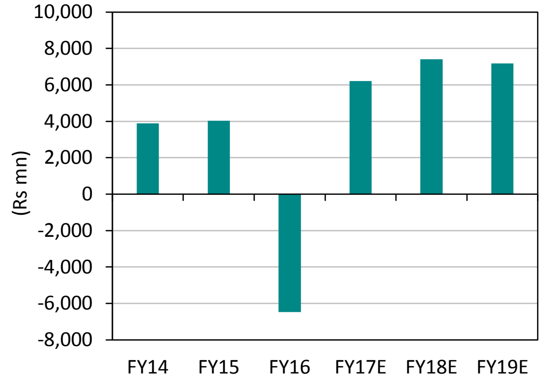
Improvement in utilization levels of terry towel and bed linen is likely to drive strong improvement in return ratios. ROEs and ROCEs are expected to expand to 19.7% and 17.2% in FY18E, respectively, from 14.2% and 10.7% in FY16. Free cash flows to the firm are likely to remain strong during FY17-19E (Rs6,000-7,400 mn).

Figure: ROCE and ROE to expand (%)



Source: Company; IDBI Capital Research

Figure: Free cash flows to improve sharply



Source: Company; IDBI Capital Research

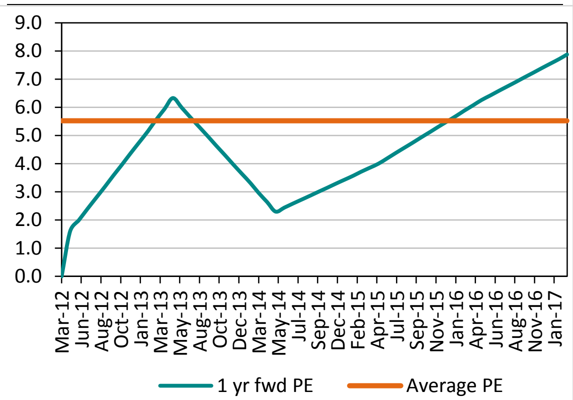
Valuation and Outlook

- **Valuations attractive; Initiate with a BUY**

  We expect Trident's revenues/EBITDA/ net profit to grow at a CAGR of 15.5% /19.6%/34.5%, respectively over FY16-19E. Further, with rising sales of terry towel and bed linen and no major capex plans in the near future, we expect free cash flows to be utilized towards deleveraging balance sheet and paying dividends. Hence, we expect the stock to trade at higher-than-historical multiples.

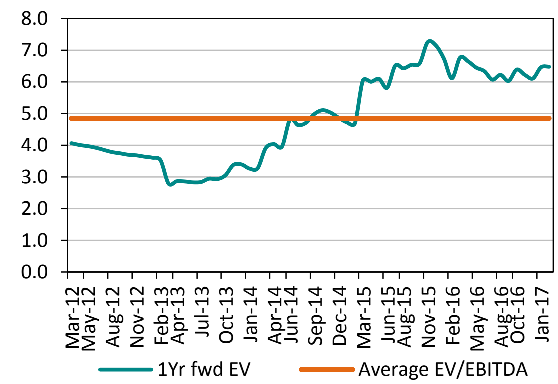
  The stock is currently trading at an inexpensive valuation of 8.5x our estimated FY18 EPS. We assign PE of 12.0x to our FY18 EPS estimate of Rs8.2 and derive a target price of Rs98, translating in a 41% upside to the current market price.

Figure: 1 year fwd PE band (x)



Source: Bloomberg; IDBI Capital Research

Figure: 1 year fwd EV/EBITDA band (x)



Source: Bloomberg; IDBI Capital Research

Key Risks

- Since the company derives significant portion of revenues from overseas, any appreciation in rupee poses a threat to earnings estimates.
- Sharp rise in prices of cotton (key raw material) could affect Trident's margins as it may be unable to take timely price hikes.

About the Company

Incorporated in 1990 by a first generation entrepreneur Mr. Rajinder Gupta, Trident is one of the largest integrated home textile producers in the world. It is also a manufacturer of wheat straw-based paper.

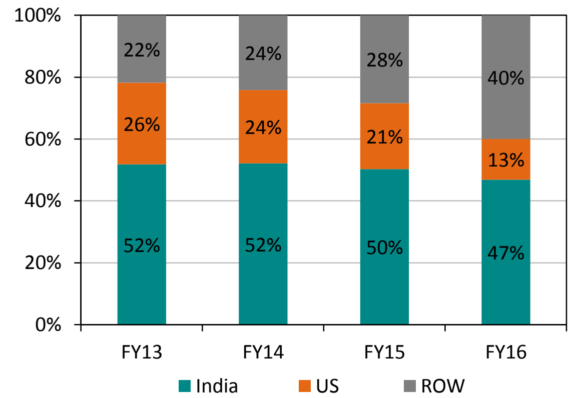
Currently, it has capacity to produce 90 kt of terry towel, 43 mn mtrs of bed linen and ~175 ktpa of paper. Trident enjoys raw material advantage in paper over wood-pulp based manufacturers due to its location in Punjab. Trident Group's customer base spans more than 100 countries across six continents and comprises global retail brands like Wal-Mart, Target, JC Penny, IKEA, etc. Its manufacturing units are in Barnala (Punjab) and Budni (Madhya Pradesh).

Table: Trident capacities as of December 2016

Segment	Capacity
Yarn	0.56 mn spindles and 5,504 rotors
Dyed yarn	6,825 tpa
Bed linen	500 looms/43.2 mn meters
Terry towel	688 looms/90,000 MT pa
Paper	1,75,000 tpa
Chemicals	1,00,000 tpa
Captive power	50 MW

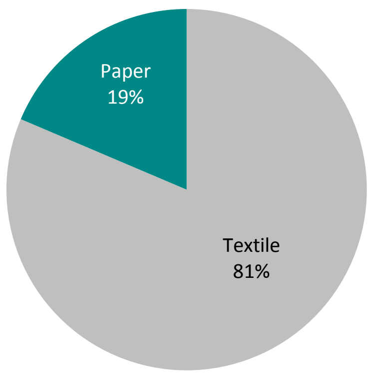
Source: Company; IDBI Capital Research

Figure: Revenue break-up by geography



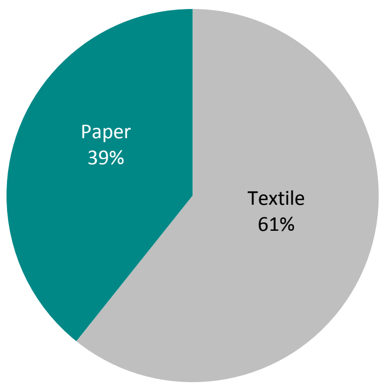
Source: Company; IDBI Capital Research

Figure: Trident revenue break-up (9MFY17)



Source: Company; IDBI Capital Research

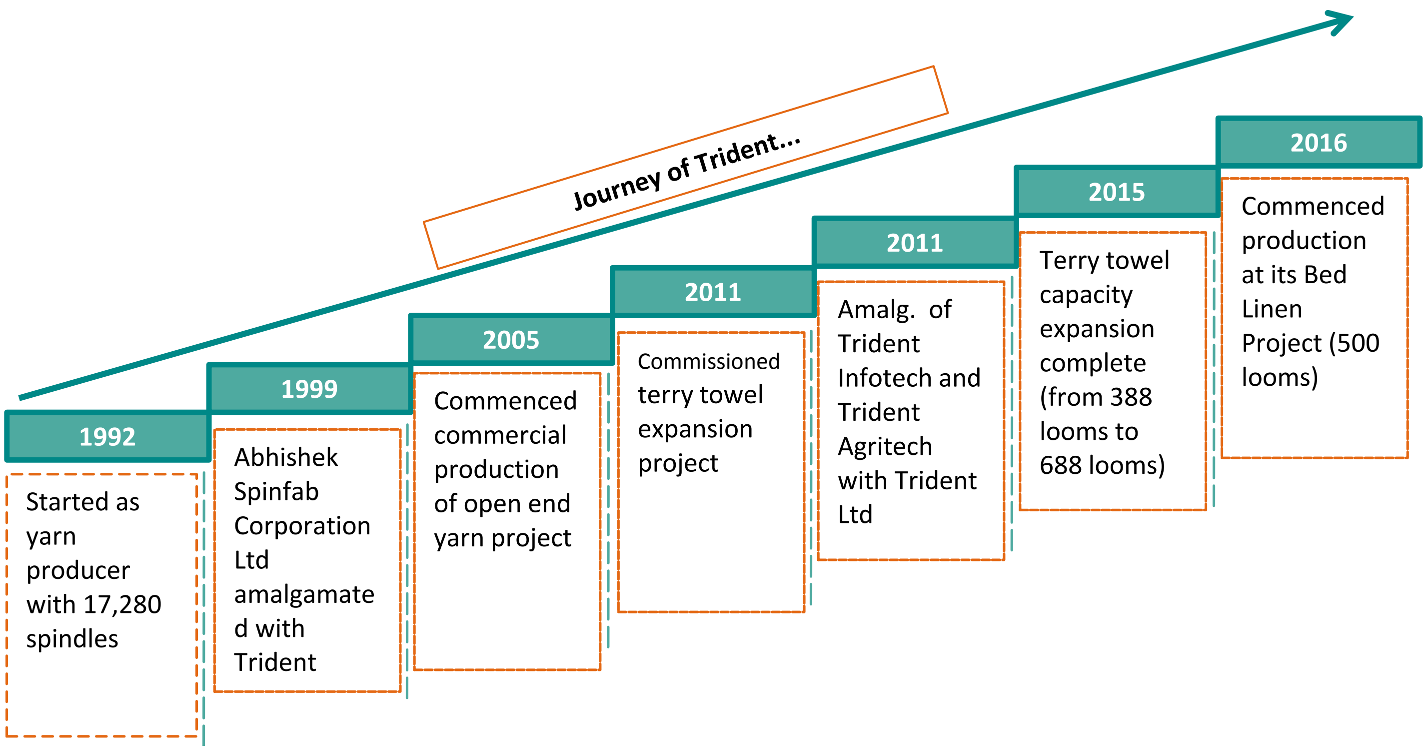
Figure: Trident EBIT break-up (9MFY17)



Source: Company; IDBI Capital Research

Trident (initially known as Abhishek Industries Ltd.) started as a cotton yarn manufacturer in 1990 with 17,280 spindles. The company's first yarn plant in Sanghera, Punjab was financed by a public issue in October 1992. With the amalgamation of Abhishek Spinfab Corporation Ltd in 1999 and Varinder Agro Chemicals Ltd in 2002, Trident diversified into terry towels and paper.

Diagram: Trident – Timelines of events



Source: Company, IDBI Capital Research

Financial Summary (Consolidated)

Profit & Loss Account (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Net sales	**37,553**	**36,840**	**46,426**	**50,463**
Growth (%)	*(3.3)*	*(1.9)*	*26.0*	*8.7*
Operating expenses	(30,946)	(29,651)	(36,904)	(39,875)
EBITDA	**6,608**	**7,189**	**9,521**	**10,588**
Growth (%)	*(11.0)*	*8.8*	*32.4*	*11.2*
Depreciation	(3,213)	(3,376)	(4,160)	(4,181)
EBIT	**3,395**	**3,813**	**5,362**	**6,407**
Interest paid	(2,060)	(1,364)	(1,319)	(1,103)
Other income	345	317	298	327
Pre-tax profit	**1,680**	**2,766**	**4,340**	**5,632**
Tax	(501)	(486)	(963)	(1,464)
Effective tax rate (%)	*29.8*	*17.6*	*22.2*	*26.0*
Net profit	**1,179**	**2,280**	**3,378**	**4,168**
Adjusted net profit	**1,179**	**2,291**	**3,378**	**4,168**
Growth (%)	*(40.2)*	*94.4*	*47.4*	*23.4*
Shares o/s (mn nos)	*509*	*569*	*509*	*509*

Cash Flow Statement (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Pre-tax profit	1,680	2,766	4,340	5,632
Depreciation	3,213	3,376	4,160	4,181
Tax paid	(341)	(1)	(963)	(1,464)
Chg in working capital	(268)	(1,293)	(1,127)	187
Other operating activities	1,159	440	2,719	1,103
CF from operations (a)	**5,443**	**5,288**	**9,129**	**9,639**
Capital expenditure	(1,843)	(11,251)	(1,000)	(800)
Chg in investments	707	(808)		-
Other investing activities	-	-	572	-
CF from investing (b)	**(1,429)**	**(12,001)**	**(428)**	**(800)**
Equity raised/(repaid)	187	611	-	-
Debt raised/(repaid)	(1,966)	7,809	(5,615)	(5,500)
Dividend (incl. tax)	(488)	(360)	(794)	(947)
Chg in monorities	-	11	-	-
Other financing activities	(2,056)	(1,378)	(2,072)	(1,286)
CF from financing (c)	**(4,323)**	**6,694**	**(8,481)**	**(7,733)**
Net chg in cash (a+b+c)	**(309)**	**(19)**	**221**	**1,105**

Balance Sheet (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Net fixed assets	30,857	38,919	35,187	31,806
Investments	1,840	2,648	2,648	2,648
Other non-curr assets	-	-	-	-
Current assets	**12,372**	**15,071**	**15,162**	**16,376**
Inventories	7,508	9,092	8,205	8,232
Sundry Debtors	2,033	1,767	2,525	2,607
Cash and Bank	170	819	1,040	2,146
Marketable Securities	197	197	197	197
Loans and advances	2,443	3,181	3,181	3,181
Total assets	**45,070**	**56,637**	**52,996**	**50,830**
Shareholders' funds	**14,554**	**17,789**	**19,620**	**22,657**
Share capital	5,086	5,694	5,094	5,094
Reserves & surplus	9,467	12,095	14,526	17,563
Total Debt	**13,961**	**21,365**	**17,150**	**11,650**
Secured loans	13,961	21,365	17,150	11,650
Other liabilities	1,647	1,811	1,811	1,811
Curr Liab & prov	**14,908**	**15,672**	**14,415**	**14,711**
Current liabilities	14,864	15,434	14,177	14,473
Provisions	45	238	238	238
Total liabilities	**30,517**	**38,848**	**33,376**	**28,173**
Total equity & liabilities	**45,070**	**56,637**	**52,996**	**50,830**
Book Value (Rs)	**29**	**31**	**39**	**44**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY15	FY16	FY17E	FY18E
Adj EPS (Rs)	2.3	4.0	6.6	8.2
Adj EPS growth (%)	(63.4)	73.7	64.8	23.4
EBITDA margin (%)	17.6	19.5	20.5	21.0
Pre-tax margin (%)	4.5	7.5	9.3	11.2
RoE (%)	9.9	14.2	18.1	19.7
RoCE (%)	14.1	10.7	13.5	17.2
Turnover & Leverage ratios (x)				
Asset turnover	1.0	0.7	0.8	1.0
Leverage factor	3.2	3.1	2.9	2.5
Net margin (%)	3.1	6.2	7.3	8.3
Net Debt/Equity	0.9	1.1	0.8	0.4
Working Capital & Liquidity ratios				
Inventory days	73	90	65	60
Receivable days	20	18	20	19
Payable days	26	27	22	23

Valuations

Year-end: March	FY15	FY16	FY17E	FY18E
PER (x)	30.1	17.3	10.5	8.5
Price/Book value (x)	2.4	2.2	1.8	1.6
PCE (x)	8.1	7.0	4.7	4.3
EV/Net sales (x)	1.3	1.6	1.1	0.9
EV/EBITDA (x)	7.4	8.4	5.4	4.2
Dividend Yield (%)	1.4	0.9	2.2	2.7